

**REPORT OF THE AUDIT OF THE  
CARTER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**

**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Charles Wallace, Carter County Judge/Executive

Members of the Carter County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Carter County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT**

**June 30, 2006**

Ross & Company, PLLC has completed the audit of the Carter County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Carter County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$5,915,715 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,576,419 in its governmental activities as of June 30, 2006, with total net assets of \$5,869,749. In its business-type activities, total cash and cash equivalents were \$13,082 with total net assets of \$45,966. The fiscal court had total debt principal as of June 30, 2006 of \$13,260,465 with \$659,117 due within the next year.

#### **Report Comments:**

- 2006-01 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2006-02 The Fiscal Court Should Annually Review The Administrative And Ethics Code And Make Any Changes Or Revision They Deem Necessary
- 2006-03 The Fiscal Court Should Adopt A Written Investment Policy
- 2006-04 The Fiscal Court Should Maintain Proper Records For The Public Properties - Justice Center Corporation Fund
- 2006-05 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- 2006-06 The Fiscal Court Road Logs Do Not Agree
- 2006-07 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2006-08 The Fiscal Court Did Not Maintain Appropriate Records For \$183,699 In Federal Emergency Management Agency Expenditures

#### **Deposits:**

The fiscal court and component units' deposits were insured and collateralized by bank securities.



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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Charles Wallace, Carter County Judge/Executive  
Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
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Members of the Carter County Fiscal Court

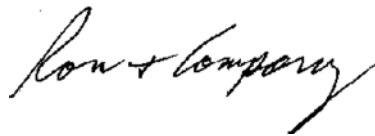
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carter County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2006-02 The Fiscal Court Should Annually Review The Administrative And Ethics Code And Make Any Changes Or Revision They Deem Necessary
- 2006-03 The Fiscal Court Should Adopt A Written Investment Policy
- 2006-04 The Fiscal Court Should Maintain Proper Records For The Public Properties - Justice Center Corporation Fund
- 2006-05 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code
- 2006-06 The Fiscal Court Road Logs Do Not Agree
- 2006-07 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2006-08 The Fiscal Court Did Not Maintain Appropriate Records For \$183,699 In Federal Emergency Management Agency Expenditures

Respectfully submitted,



Ross & Company, PLLC  
Certified Public Accountants

November 22, 2006

CARTER COUNTY OFFICIALS

For The Year Ended June 30, 2006

**Fiscal Court Members:**

Charles Wallace	County Judge/Executive
Carlos Wells	Magistrate
Jeff Kiser	Magistrate
D. L. McDavid	Magistrate
Judy Roark	Magistrate
Debbie Carper	Magistrate

**Other Elected Officials:**

Michael Fox	County Attorney
Randy Binion	Jailer
Hugh McDavid	County Clerk
Larry Thompson	Circuit Court Clerk
Kevin McDavid	Sheriff
Charles Kiser	Property Valuation Administrator
George Sparks	Coroner

**Appointed Personnel:**

Cindy Lowe	County Treasurer
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# Carter County

Carter County Courthouse  
300 West Main Street, Room 227  
Grayson, Kentucky 41143



Phone 606-474-5366  
Fax 606-474-6991

**CHARLES WALLACE**  
*Carter County Judge Executive*

## **Management's Discussion and Analysis** **June 30, 2006**

The financial management of Carter County, Kentucky offers readers of Carter County's financial statements this narrative overview and analysis of the financial activities of Carter County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

### **Financial Highlights**

- Carter County has net assets in governmental activities of \$5,869,749, including current and capital assets, as of June 30, 2006, net of related debt.
- Carter County's total indebtedness at the close of fiscal year June 30, 2006 was \$13,260,465, of which \$12,601,348 is long-term debt (due after 1 year) and \$659,117 is short-term debt (to be paid within 1 year). There were new debt additions during the fiscal year of \$338,034, and debt reductions were \$569,700 during the fiscal year.
- Carter County upgraded its equipment for the Enhanced-911 and Sheriff Departments during the fiscal year, including the purchase of additional software and equipment for the 911 center, and 4 new cruisers for the Sheriff's Department.
- The County received various grants during the fiscal year. A cemetery grant was received from the Governor's Office for Local Development to help restore abandoned cemeteries in the amount of \$25,000, which the County more than matched with an additional \$38,681. The county also received \$5,800 from FIVCO for courthouse repairs. A \$10,017 Ambulance Board grant was received for equipment and training. The office of Homeland Security provided \$49,755 for the purchase of equipment and supplies for the Sheriff's office and Emergency Management. The Recreation Alliance received \$2,750 from the Division of Forestry for work on the park. The county fire departments, search and rescue, and various recreational organizations shared over \$75,000 in coal severance funding.
- During the fiscal year, the Kentucky State Board of Elections mandated some upgrades to voting equipment, and provided the County with \$141,335 of funds to complete the project.
- The County completed numerous additional road maintenance projects during the fiscal year, with funding from state bond proceeds and Transportation Cabinet grants totaling \$797,186, and FEMA proceeds of \$241,919.
- The Carter County Solid Waste Department completed cleanup of several county dumps during the fiscal year, with partial funding coming from the State in the amount of \$73,293.

**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Carter County's basic financial statements. Carter County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Carter County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Carter County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Carter County is improving or deteriorating.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Carter County's governmental activities include general governmental, protection to persons and property, roads, general health and sanitation, and social services. The county has one business-type activity – the operation of a jail canteen.

The government-wide financial statements include not only Carter County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Carter County has one such entity, the Justice Center Corporation. It is known as a blended component unit.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carter County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Carter County can be divided into three broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Carter County maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Jail Fund, Local Government Economic Assistance Fund, Enhanced-911 Fund, and Justice Center Corporation Fund, all of which are considered major funds by the county. The Governor's Surplus Spending Fund, Forestry Fund, CDBG Fund, and Bond Defeasance Fund are considered non-major funds and are represented in combined form.

Carter County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in this report for the General, Road, Jail, LGEA, and Enhanced-911 Funds to demonstrate compliance with their budgets.

**Proprietary Funds.** Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

**Net Assets.** As noted earlier, net assets and changes in net assets may serve over time as a useful indicator of a government's financial position. Carter County's net assets for governmental activities increased from \$4,614,212 to \$5,869,749 during the fiscal year ended June 30, 2006.

At \$4,293,330, the largest portion of Carter County's net assets is invested in capital assets, net of related debt. During the year, the County increased this portion of net assets through the purchase of various capital assets. Additional explanation can be found in Notes 3-5 to the financial statements.

The second largest portion of net assets is unrestricted net assets, at \$1,576,419, which decreased slightly from the previous year. Unrestricted net assets represents funds that can be spent at the County's discretion.

**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

Table 1 presents a comparison of net assets as of June 30, 2005 and June 30, 2006.

**Table 1**  
**Net Assets Comparison-Governmental Activities**

	<b>2005</b>	<b>2006</b>	<b>Variance</b>
Cash and Cash Equivalents	2,325,320	1,576,419	(748,901)
Other Current Assets		9,117	9,117
Capital Assets	15,381,806	17,329,278	1,947,472
Other Noncurrent Assets	<u>                    </u>	<u>215,400</u>	<u>215,400</u>
Total Assets	<u>17,707,126</u>	<u>19,130,214</u>	<u>1,423,088</u>
Current Liabilities	395,000	659,117	264,117
Noncurrent Liabilities	<u>12,697,914</u>	<u>12,601,348</u>	<u>(96,566)</u>
Total Liabilities	<u>13,092,914</u>	<u>13,260,465</u>	<u>167,551</u>
Invested in Capital Assets net of related debt	2,288,892	4,293,330	2,004,438
Unrestricted Net Assets	<u>2,325,320</u>	<u>1,576,419</u>	<u>(748,901)</u>
Total Net Assets	<u><u>4,614,212</u></u>	<u><u>5,869,749</u></u>	<u><u>1,255,537</u></u>



**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

**Table 2**  
**Statement of Activities Comparison-Governmental Activities**

<b>Expenses:</b>	<b>2005</b>	<b>2006</b>	<b>Variance</b>
General Government	724,124	1,366,834	642,710
Protection to Persons and Property	2,172,590	2,427,797	255,207
General Health and Sanitation	256,869	385,518	128,649
Social Services	47,500	25,864	(21,636)
Recreation and Culture	56,703	20,351	(36,352)
Roads	1,233,710	1,536,472	302,762
Interest on Long-Term	596,398	607,139	10,741
Capital Projects	884,697	83,778	(800,919)
Total Expenses	<u>5,972,591</u>	<u>6,453,753</u>	<u>481,162</u>
<b>Revenues:</b>			
Charges for Services	1,145,991	121,491	(1,024,500)
Operating Grants and Contributions	4,224,782	5,304,154	1,079,372
General Revenues	<u>2,073,340</u>	<u>2,283,645</u>	<u>210,305</u>
Total Revenues	<u>7,444,113</u>	<u>7,709,290</u>	<u>265,177</u>
Change in Net Assets	1,471,522	1,255,537	(215,985)
Beginning Net Assets	3,142,690	4,614,212	1,471,522
Ending Net Assets	<u>4,614,212</u>	<u>5,869,749</u>	<u>1,255,537</u>

**Financial Analysis of the County's Funds.**

As noted earlier, Carter County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds Overview.* The focus of Carter County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the June 30, 2006 fiscal year, the combined ending fund balance of the County's governmental funds was \$1,576,419.

The County has 6 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) Jail Fund; 4) Local Government Economic Assistance Fund; 5) Enhanced-911 Fund; and 6) Justice Center Corporation Fund. There are 4 non-major funds. They are the Forestry Fund, CDBG Fund, Governor's Surplus Spending Fund, and the Bond Defeasance Fund.

**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

1. The General Fund is the chief operating fund of Carter County. At the end of June 30, 2006 fiscal year, the total fund balance of the General Fund was \$984,270. The county received \$689,003 in Insurance Premium Tax revenue, which accounts for approximately 30% of total general fund revenues. \$487,373 was received from real and personal property taxes (including motor vehicles), and accounts for approximately 21% of the county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 49% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$99,541 in fund balance at June 30, 2006. The fund balance at the end of the previous year was \$336,103.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail fund had a fund balance at June 30, 2006 of \$60,101, a decrease of \$36,522 over the previous fiscal year end.
4. The Local Government Economic Assistance Fund had a fund balance of \$27,545, a decrease of \$59,481 over the previous fiscal year end.
5. The Enhanced-911 Fund accounts for the County's emergency operations and is supported primarily from telephone taxes. There was a fund balance of \$124,048 at the end of the June 30, 2006 fiscal year, a decrease of \$103,985 from the previous year.
6. The Justice Center Corporation Fund is a blended component unit of the fiscal court. It was established to issue the debt to build the Carter County Justice Center.

*Proprietary Funds Overview.* The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Carter County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had net capital assets of \$32,884 as of June 30, 2006, and a cash balance of \$13,082.

**General Fund Budgetary Highlights.**

The County's original budget was amended during the fiscal year to increase the operating budget. Budget amendments are made to include revenues in excess of projected collections. The amendments made during the fiscal year are as follows:

1. General Fund: The prior year carryover amount was amended by \$633,681, to allow an increase in Transfers to Road Fund by \$400,000, Deputies Salaries by \$195,000, and Cemetery Grant expenditures by \$38,681. Grant revenue was amended by \$29,155 to allow for the \$25,000 Cemetery Grant received by the State, and \$4,155 received by Homeland Security for the Sheriff's Department and Emergency Management.
2. Road Fund: The budget was amended in total by \$1,100,000. \$400,000 was transferred in from the General Fund and spent on Road Materials. The remaining \$700,000 was amended to allow for the borrowing of funds, but was never utilized.
3. Enhanced 911 Fund: The prior year carryover amount was amended by \$100,000 to allow for the purchase of new equipment.

Actual operating revenues in the General Fund were \$110,970 more than the actual amount budgeted by the Fiscal Court (after amendments), and actual operating expenses were \$369,327 less than the actual budget.

**Carter County Management's Discussion and Analysis**  
**June 30, 2006**  
**(Continued)**

**Capital Assets and Debt Administration.**

*Capital Assets.* Carter County's investment in capital assets for its government and business type activities as of June 30, 2006, amounts to \$17,362,162 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and infrastructure. The County has elected to report infrastructure assets per GASB 34 provisions. Additional information on capital assets can be found in Note 3.

**Table 1**  
**Carter County's Capital Assets, Net of Accumulated Depreciation**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Infrastructure</b>	<b>2,999,272</b>	<b>0</b>	<b>2,999,272</b>
<b>Land</b>	<b>942,900</b>	<b>0</b>	<b>942,900</b>
<b>Bldgs. &amp; Improvements</b>	<b>12,274,070</b>	<b>0</b>	<b>12,274,070</b>
<b>Equipment</b>	<b>648,619</b>	<b>32,884</b>	<b>681,503</b>
<b>Vehicles</b>	<b>464,417</b>	<b>0</b>	<b>464,417</b>
<b>Total Net Capital Assets</b>	<b>\$ 17,329,278</b>	<b>\$ 32,884</b>	<b>\$ 17,362,162</b>

*Long-Term Debt.* At the end of the 2006 fiscal year, Carter County had total debt outstanding of \$13,070,465. The amount of this debt due within the next year is \$469,117 and \$12,601,348 is due in subsequent years. This debt is for the Detention Center and equipment for the Sheriff's Department and Road Fund. Additional information on debt can be found in Note 5.

*Short-Term Debt.* The county has short-term debt at the end of the fiscal year of \$190,000, for Road Fund equipment purchases. Additional information on debt can be found in Note 4.

**Other matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects which have been completed or are nearing completion.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

**Requests for Information**

This financial report is designed to provide a general overview of Carter County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Carter County Treasurer, 300 West Main Street, Room 220, Grayson, Kentucky, 41143.

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**CARTER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**CARTER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,576,419	\$ 13,082	\$ 1,589,501
Notes Receivable (Fire Trucks)	9,117		9,117
Total Current Assets	<u>1,585,536</u>	<u>13,082</u>	<u>1,598,618</u>
Noncurrent Assets:			
Notes Receivable (Fire Trucks)	215,400		215,400
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	942,900		942,900
Buildings	12,274,070		12,274,070
Equipment	648,619	32,884	681,503
Vehicles	464,417		464,417
Infrastructure Assets - Net of Depreciation	<u>2,999,272</u>		<u>2,999,272</u>
Total Noncurrent Assets	<u>17,544,678</u>	<u>32,884</u>	<u>17,577,562</u>
Total Assets	<u>19,130,214</u>	<u>45,966</u>	<u>19,176,180</u>
<b>LIABILITIES</b>			
Current Liabilities:			
General Obligation Bonds	110,000		110,000
Revenue Bonds	275,000		275,000
Financing Obligations	274,117		274,117
Total Current Liabilities	<u>659,117</u>		<u>659,117</u>
Noncurrent Liabilities:			
General Obligation Bonds	5,665,000		5,665,000
Revenue Bonds	6,400,000		6,400,000
Financing Obligations	536,348		536,348
Total Noncurrent Liabilities	<u>12,601,348</u>		<u>12,601,348</u>
Total Liabilities	<u>13,260,465</u>		<u>13,260,465</u>
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	\$ 4,293,330	\$ 32,884	\$ 4,326,214
Unrestricted	1,576,419	13,082	1,589,501
Total Net Assets	<u>\$ 5,869,749</u>	<u>\$ 45,966</u>	<u>\$ 5,915,715</u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**CARTER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

		Program Revenues Received	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,366,834	\$	\$ 1,285,708
Protection to Persons and Property	2,427,797	121,491	1,762,296
General Health and Sanitation	385,518		
Social Services	25,864		
Recreation and Culture	20,351		
Roads	1,536,472		2,256,150
Interest on Long Term Debt	607,139		
Capital Projects	83,778		
Total Governmental Activities	6,453,753	121,491	5,304,154
Business-type Activities:			
Jail Canteen	22,310	31,681	
Total Business-type Activities	22,310	31,681	
Total Primary Government	\$ 6,476,063	\$ 153,172	\$ 5,304,154

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu Tax Payments

Excess Fees

Licenses and Permits

Interest

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**CARTER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (81,126)	\$	\$ (81,126)
(544,010)		(544,010)
(385,518)		(385,518)
(25,864)		(25,864)
(20,351)		(20,351)
719,678		719,678
(607,139)		(607,139)
(83,778)		(83,778)
(1,028,108)		(1,028,108)
	9,371	9,371
	9,371	9,371
\$ (1,028,108)	\$ 9,371	\$ (1,018,737)
346,324		346,324
31,193		31,193
109,856		109,856
1,149,808		1,149,808
13,941		13,941
31,165		31,165
58,660		58,660
23,212		23,212
519,486		519,486
2,283,645		2,283,645
1,255,537	9,371	1,264,908
4,614,212	36,595	4,650,807
\$ 5,869,749	\$ 45,966	\$ 5,915,715

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

**CARTER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Enhanced 911 Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 984,270	\$ 99,541	\$ 60,101	\$ 27,545	\$ 124,048
Total Assets	<u>\$ 984,270</u>	<u>\$ 99,541</u>	<u>\$ 60,101</u>	<u>\$ 27,545</u>	<u>\$ 124,048</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 192,946	\$ 49,570	\$ 60,090	\$ 27,545	\$ 27,961
Unreserved:					
General Fund	791,324				
Special Revenue Funds		49,971	11		96,087
Capital Projects Funds					
Total Fund Balances	<u>\$ 984,270</u>	<u>\$ 99,541</u>	<u>\$ 60,101</u>	<u>\$ 27,545</u>	<u>\$ 124,048</u>

The accompanying notes are an integral part of the financial statements.

**CARTER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2006**  
**(Continued)**

<b>Justice Center Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 190,408</u>	<u>\$ 90,506</u>	<u>\$ 1,576,419</u>
<u>\$ 190,408</u>	<u>\$ 90,506</u>	<u>\$ 1,576,419</u>
\$	\$	\$ 358,112
		791,324
	90,506	236,575
<u>190,408</u>	<u></u>	<u>190,408</u>
<u>\$ 190,408</u>	<u>\$ 90,506</u>	<u>\$ 1,576,419</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,576,419
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	20,859,155
Accumulated Depreciation	(3,529,877)
Notes Receivable Are Not A Current Financial Resource And Therefore Are Not Reported in the Funds.	224,517
Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	
Financing Obligations	(810,465)
Bonded Debt	<u>(12,450,000)</u>
Net Assets Of Governmental Activities	<u>\$ 5,869,749</u>

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**CARTER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**CARTER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>REVENUES</b>				
Taxes	\$ 1,360,065	\$	\$	\$
In Lieu Tax Payments	13,941			
Excess Fees	31,165			
Licenses and Permits	58,660			
Intergovernmental	529,251	2,256,150	1,319,442	393,100
Charges for Services	86,435		35,056	
Miscellaneous	183,388	39,560	268,268	2,839
Interest	9,130	3,385	1,149	695
Total Revenues	<u>2,272,035</u>	<u>2,299,095</u>	<u>1,623,915</u>	<u>396,634</u>
<b>EXPENDITURES</b>				
General Government	1,159,371			18,103
Protection to Persons and Property	68,660		1,193,407	343,103
General Health and Sanitation	79,073			306,445
Social Services	25,864			
Recreation and Culture				20,351
Roads		2,694,341		
Debt Service				
Principal	18,483		105,000	
Interest	13,993	8,981	288,813	
Capital Projects		415,562		
Administration	289,812	154,807	269,717	115,688
Total Expenditures	<u>1,655,256</u>	<u>3,273,691</u>	<u>1,856,937</u>	<u>803,690</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>616,779</u>	<u>(974,596)</u>	<u>(233,022)</u>	<u>(407,056)</u>
<b>Other Financing Sources (Uses)</b>				
Financing Obligation Proceeds		338,034		
Transfers From Other Funds		400,000	196,500	347,575
Transfers To Other Funds	(944,075)			
Total Other Financing Sources (Uses)	<u>(944,075)</u>	<u>738,034</u>	<u>196,500</u>	<u>347,575</u>
Net Change in Fund Balances	(327,296)	(236,562)	(36,522)	(59,481)
Fund Balances - Beginning	1,311,566	336,103	96,623	87,026
Fund Balances - Ending	<u>\$ 984,270</u>	<u>\$ 99,541</u>	<u>\$ 60,101</u>	<u>\$ 27,545</u>

The accompanying notes are an integral part of the financial statements.

**CARTER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Enhanced 911 Fund</b>	<b>Justice Center Corporation Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 273,031	\$	\$ 4,086	\$ 1,637,182
			13,941
			31,165
			58,660
	819,960	6,250	5,324,153
			121,491
3,950	21,480		519,485
1,883	6,115	856	23,213
<u>278,864</u>	<u>847,555</u>	<u>11,192</u>	<u>7,729,290</u>
			1,177,474
177,321		3,456	1,785,947
			385,518
			25,864
			20,351
			2,694,341
166,217	280,000		569,700
1,906	304,960		618,653
	247,134	6,250	668,946
37,405	2,000		869,429
<u>382,849</u>	<u>834,094</u>	<u>9,706</u>	<u>8,816,223</u>
<u>(103,985)</u>	<u>13,461</u>	<u>1,486</u>	<u>(1,086,933)</u>
			338,034
			944,075
			<u>(944,075)</u>
			<u>338,034</u>
(103,985)	13,461	1,486	(748,899)
228,033	176,947	89,020	2,325,318
<u>\$ 124,048</u>	<u>\$ 190,408</u>	<u>\$ 90,506</u>	<u>\$ 1,576,419</u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**CARTER COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (748,899)
--	--------------

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,606,965
Depreciation Expense	(819,588)
Asset Disposal, Net Value	(6,124)

Governmental Funds Report Payments from Other Entities On Notes Receivable as a current financial resource, while at the government -wide level, these payments reduce notes receivable.

(8,483)

The Issuance of Long-Term and Short-Term Debt (e.g. bonds, leases)

Provides Current Financial Resources to Governmental Funds, while Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(338,034)
Financing Obligation Payments	194,700
Bond Payments	375,000

Change in Net Assets of Governmental Activities	\$ 1,255,537
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**CARTER COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**



**CARTER COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 13,082
Total Current Assets	<u>13,082</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	51,128
Less Accumulated Depreciation	<u>(18,244)</u>
Total Noncurrent Assets	<u>32,884</u>
Total Assets	<u>45,966</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	32,884
Unrestricted	<u>13,082</u>
Total Net Assets	<u><u>\$ 45,966</u></u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**CARTER COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 31,681
Total Operating Revenues	<u>31,681</u>
<b>Operating Expenses</b>	
Educational and Recreational	5,948
Depreciation Expense	10,066
Personnel Costs	5,045
Miscellaneous	<u>1,251</u>
Total Operating Expenses	<u>22,310</u>
Operating Income	<u>9,371</u>
Change In Net Assets	9,371
Total Net Assets - Beginning	36,595
Total Net Assets - Ending	<u><u>\$ 45,966</u></u>

The accompanying notes are an integral part of the financial statements.





**CARTER COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**CARTER COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<u><b>Enterprise Fund</b></u>
	<u><b>Jail Canteen Fund</b></u>
<b>Cash Flows From Operating Activities</b>	
Sales Commission	\$ 31,681
Educational and Recreational	(5,948)
Personnel Costs	(5,045)
Miscellaneous	<u>(1,251)</u>
Net Cash Provided By Operating Activities	<u>19,437</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Purchase of Capital Assets	<u>(23,044)</u>
Net Cash Provided by Noncapital Financing Activities	<u>(23,044)</u>
Net Decrease in Cash and Cash Equivalents	(3,607)
Cash and Cash Equivalents - July 1, 2005	<u>16,689</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 13,082</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating	\$ 9,371
Plus: Depreciation Expense	<u>10,066</u>
Total Cash Used By Operating Activities	<u><u>\$ 19,437</u></u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**CARTER COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u><b>Agency Fund</b></u>
	<b>Jail Inmate Fund</b>
	<u>                    </u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	<u>\$        15,333</u>
Total Assets	<u>                15,333</u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>                15,333</u>
Total Liabilities	<u>                15,333</u>
<b>Net Assets</b>	
Total Net Assets	<u><u>                \$          0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Carter County Justice Center Corporation**

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Carter County Elected Officials**

Kentucky law provides for election of the officials noted below from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Carter County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Jail Fund** - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Local Government Economic Assistance Fund** - The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Enhanced 911 Fund - This fund accounts for the County's emergency operations and is supported primarily from telephone taxes.

Justice Center Corporation Fund - This fund accounts for the activities of the Carter County Justice Center Corporation, a blended component unit of the county. The Justice Center Corporation fund issued the debt to build the justice center. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Governor's Surplus Spending Fund, Forestry Fund, Bond Defeasance Fund, and Community Development Block Grant Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Enhanced 911 Fund, Governor's Surplus Spending Fund, Forestry Fund, and Bond Defeasance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Capital Projects Fund:**

The Justice Center Corporation Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30, following delinquency date.

**Proprietary Funds**

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB statements or interpretations.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Fiduciary Funds**

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Fund, is used to account for inmate monies held by the jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, non-depreciable land improvements, depreciable land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, non-depreciable land improvements, and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	25-40
Buildings	\$ 25,000	30-40
Building Improvements	\$ 25,000	15-25
Machinery and Equipment	\$ 2,500	5-10
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	15-25

**G. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Governor's Office for Local Development does not require this fund to be budgeted.

**J. Related Organizations and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Ambulance Service is considered a related organization of the Carter County Fiscal Court.

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky Counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

**Note 2. Deposits**

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 942,900	\$	\$	\$ 942,900
Total Capital Assets Not Being Depreciated	942,900			942,900
Capital Assets, Being Depreciated:				
Buildings	13,803,097	252,630		14,055,727
Equipment	1,131,086	243,279	(28,553)	1,345,812
Vehicles	701,866	448,156	(20,399)	1,129,623
Infrastructure	1,722,193	1,662,900		3,385,093
Total Capital Assets Being Depreciated	17,358,242	2,606,965	(48,952)	19,916,255
Less Accumulated Depreciation For:				
Buildings	(1,446,446)	(335,211)		(1,781,657)
Equipment	(578,998)	(140,876)	22,681	(697,193)
Vehicles	(567,527)	(117,828)	20,149	(665,206)
Infrastructure	(160,148)	(225,673)		(385,821)
Total Accumulated Depreciation	(2,753,119)	(819,588)	42,830	(3,529,877)
Total Capital Assets, Being Depreciated, Net	14,605,123	1,787,377	(6,122)	16,386,378
Governmental Activities Capital Assets, Net	<u>\$ 15,548,023</u>	<u>\$ 1,787,377</u>	<u>\$ (6,122)</u>	<u>\$ 17,329,278</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 30,176	\$ 31,511	\$ (10,559)	\$ 51,128
Total Capital Assets Being Depreciated	30,176	31,511	(10,559)	51,128
Less Accumulated Depreciation For:				
Vehicles and Equipment	(10,270)	(10,066)	2,092	(18,244)
Total Accumulated Depreciation	(10,270)	(10,066)	2,092	(18,244)
Total Capital Assets, Being Depreciated, Net	19,906	21,445	(8,467)	32,884
Business-Type Activities Capital Assets, Net	\$ 19,906	\$ 21,445	\$ (8,467)	\$ 32,884



**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 53,614
Protection to Persons and Property	453,910
Roads, Including Depreciation of General Infrastructure Assets	<u>312,064</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 819,588</u>

Business-Type Activities

Jail Canteen	<u>\$ 10,066</u>
Total Depreciation Expense - Business Activities	<u>\$ 10,066</u>

**Note 4. Short-term Debt**

**A. E-911 Equipment**

On May 10, 2005, the fiscal court entered into a financing obligation agreement for \$166,217 with the Kentucky Association of Counties Leasing Trust Program for the purchase of computer equipment for Enhanced 911. The lease was completely paid in full during the fiscal year.

**B. KADD Lease – Series 2005**

On January 10, 2006, the fiscal court entered into a one-year leasing agreement with KADD Financing Trust for the purchase of a truck for the road department. The lease matures on December 1, 2006.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	190,000	3,680
Totals	<u>\$ 190,000</u>	<u>\$ 3,680</u>

**C. Changes In Short-term Liabilities**

Short-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	<u>\$ 166,217</u>	<u>\$190,000</u>	<u>\$ 166,217</u>	<u>\$ 190,000</u>	<u>\$ 190,000</u>
Governmental Activities					
Short-term Liabilities	<u>\$ 166,217</u>	<u>\$190,000</u>	<u>\$ 166,217</u>	<u>\$ 190,000</u>	<u>\$ 190,000</u>

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Long-term Debt**

**A. Improvement Bonds, Series 2001**

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on November 1, 2001, and the principal payments commenced on May 1, 2003. As of June 30, 2006, the principal amount outstanding was \$5,775,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 110,000	\$ 284,718
2008	115,000	280,318
2009	125,000	275,602
2010	130,000	270,353
2011-2015	735,000	1,261,231
2016-2020	940,000	1,069,270
2021-2025	1,235,000	807,938
2026-2030	1,605,000	456,381
2031-2032	780,000	60,475
Totals	<u>\$ 5,775,000</u>	<u>\$ 4,766,286</u>

**B. First Mortgage Revenue Bonds, Series 2002**

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commenced with occupancy of the Justice Center by the Administrative Office of the Courts. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the Administrative Office of Courts to do so.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. First Mortgage Revenue Bonds, Series 2002 (Continued)**

The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commenced on March 1, 2003, and the principal payments commenced on March 1, 2004. As of June 30, 2006, the principal amount outstanding was \$6,675,000. Bond payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 275,000	\$ 290,170
2008	285,000	281,645
2009	295,000	272,098
2010	310,000	261,478
2011-2015	1,750,000	1,113,980
2016-2020	2,180,000	698,948
2021-2023	1,580,000	156,356
Totals	<u>\$ 6,675,000</u>	<u>\$ 3,074,675</u>

**C. Kentucky Area Development District Financing Program**

On October 9, 2003, the Carter County Justice Center Corporation entered into a 20-year lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$380,000. The proceeds of the lease were used to fund a portion of the construction costs associated with the new Justice Center. A principal payment of \$170,000 was paid on May 28, 2004 with the remaining principal due annually commencing on December 1, 2005. The agreement requires semiannual interest payments at an average rate of 3.86 percent. The Administrative Office of the Courts is expected to pay the full amount of the principal and interest payments. The principal outstanding as of June 30, 2006 was \$200,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 15,000	\$ 7,020
2008	15,000	6,728
2009	15,000	6,382
2010	15,000	5,981
2011-2015	55,000	23,966
2016-2020	55,000	13,109
2021-2023	30,000	2,160
Totals	<u>\$ 200,000</u>	<u>\$ 65,346</u>

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Sheriff's Vehicles - 2005**

On January 20, 2005, the fiscal court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of vehicles for the sheriff's office. The lease term is for four years, with the balance to be paid in full on July 20, 2009. The balance of the financing obligation at June 30, 2006 was \$47,914. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 10,000	\$ 1,390
2008	10,000	1,037
2009	10,000	683
2010	17,914	56
Totals	<u>\$ 47,914</u>	<u>\$ 3,166</u>

**E. Road Equipment**

In October 2005, the county entered into a financing obligation agreement for \$148,034 with Kentucky Association of Counties Leasing Trust Program for the purchase of road equipment. Terms of the agreement stipulate a three-year repayment schedule, with variable monthly interest payments and variable annual principal payments. The principal amount is due on July 20 of each year to end on January 20, 2008. As of June 30, 2006, the principal balance was \$148,034. Obligations for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 50,000	\$ 4,533
2008	50,000	2,510
2009	48,034	205
Totals	<u>\$ 148,034</u>	<u>\$ 7,248</u>

**F. Fire Truck/Notes Receivable**

On March 7, 2005, the Carter County Fiscal Court entered into a \$93,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire truck. Terms of the agreement stipulate a ten-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2015. As of June 30, 2006, the principal balance remaining was \$87,428. Future principal and interest requirements are:

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Fire Truck/Notes Receivable (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 5,867	\$ 4,133
2008	6,170	3,830
2009	6,496	3,504
2010	6,837	3,163
2011-2015	39,955	50,000
Thereafter	22,103	96
Totals	<u>\$ 87,428</u>	<u>\$ 64,726</u>

The Grahn Fire Department has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the Fire Department for the amount of the debt incurred by the County as follows:

Current Portion	\$ 5,867
Long-Term Portion	81,561
Total	<u>\$ 87,428</u>

**G. Fire Pumper/Notes Receivable**

On June 22 2005, the Carter County Fiscal Court entered into a \$140,000 agreement with the Kentucky Association of Counties Leasing Trust Program for the acquisition of a fire pumper. Terms of the agreement stipulate a twelve-year repayment schedule, with variable interest payments and variable annual principal payments ending on July 20, 2017. As of June 30, 2006, the principal balance remaining was \$137,089. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 3,250	\$ 6,750
2008	3,412	6,588
2009	3,595	6,405
2010	3,784	6,216
2011-2015	22,116	27,884
Thereafter	100,932	9,449
Totals	<u>\$ 137,089</u>	<u>\$ 63,292</u>

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**G. Fire Pumper/Notes Receivable (Continued)**

The Hitchens Fire Department has agreed to make the principal payments for the term of the lease agreement. Therefore, the County has recorded a note receivable due from the Fire Department for the amount of the debt incurred by the County as follows:

Current Portion	\$ 3,250
Long-Term Portion	133,839
Total	<u>\$ 137,089</u>

**H. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation					
Improvement Bonds	\$ 5,880,000	\$	\$ 105,000	\$ 5,775,000	\$ 110,000
Revenue Bonds	6,945,000		270,000	6,675,000	275,000
Financing Obligations	<u>500,914</u>	<u>148,034</u>	<u>28,483</u>	<u>620,465</u>	<u>84,117</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 13,325,914</u>	<u>\$ 148,034</u>	<u>\$ 403,483</u>	<u>\$ 13,070,465</u>	<u>\$ 469,117</u>

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**CARTER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 7. Insurance**

For the fiscal year ended June 30, 2006, Carter County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Commitments and Contingencies**

The legal representation letter from the County Attorney disclosed a lawsuit from a contractor for \$20,000 for services performed on a dumpsite located on Fryer Hollow near Grayson, Kentucky. The Fiscal Court has not accepted the claims of the contractor on advice of the County Attorney because the work was performed without competitive bidding. It is likely that the contractor will be ultimately successful in his claim against the Fiscal Court as disclosed in the legal representation letter. If successful, the financial harm to the county will be nominal.

**Note 9. Prior Period Adjustments**

Beginning net assets of governmental activities has been restated for prior year assets omitted of \$399,271 as well as prior year liabilities omitted of \$399,271. The net effect of these transactions on beginning net assets is zero.

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**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**



**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,266,000	\$ 1,266,000	\$ 1,360,065	\$ 94,065
In Lieu Tax Payments	1,000	1,000	13,941	12,941
Excess Fees	55,000	55,000	31,165	(23,835)
Licenses and Permits	39,000	39,000	58,660	19,660
Intergovernmental	554,410	558,565	509,251	(49,314)
Charges for Services	90,000	90,000	86,435	(3,565)
Miscellaneous	125,000	125,000	183,388	58,388
Interest	6,500	6,500	9,130	2,630
Total Revenues	<u>\$ 2,136,910</u>	<u>\$ 2,141,065</u>	<u>\$ 2,252,035</u>	<u>\$ 110,970</u>
<b>EXPENDITURES</b>				
General Government	1,097,949	1,294,604	1,159,371	135,233
Protection to Persons and Property	91,785	94,285	68,660	25,625
General Health and Sanitation	77,032	77,032	79,073	(2,041)
Social Services		63,681	25,864	37,817
Debt Service				
Principal	10,000	10,000	10,000	0
Interest	2,476	2,476	2,476	0
Capital Projects	10,000	10,000		10,000
Administration	452,505	452,505	289,812	162,693
Total Expenditures	<u>\$ 1,741,747</u>	<u>\$ 2,004,583</u>	<u>\$ 1,635,256</u>	<u>\$ 369,327</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>395,163</u>	<u>136,482</u>	<u>616,779</u>	<u>480,297</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(980,638)</u>	<u>(1,380,638)</u>	<u>(944,075)</u>	<u>436,563</u>
Total Other Financing Sources (Uses)	<u>\$ (980,638)</u>	<u>\$ (1,380,638)</u>	<u>\$ (944,075)</u>	<u>\$ 436,563</u>
Net Changes in Fund Balance	(585,475)	(1,244,156)	(327,296)	916,860
Fund Balance - Beginning	<u>585,475</u>	<u>1,219,156</u>	<u>1,311,566</u>	<u>92,410</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (25,000)</u>	<u>\$ 984,270</u>	<u>\$ 1,009,270</u>

**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,743,017	\$ 1,743,017	\$ 2,256,150	\$ 513,133
Miscellaneous			39,560	39,560
Interest	1,500	1,500	3,385	1,885
Total Revenues	<u>\$ 1,744,517</u>	<u>\$ 1,744,517</u>	<u>\$ 2,299,095</u>	<u>\$ 554,578</u>
<b>EXPENDITURES</b>				
Roads	\$ 2,281,617	\$ 2,681,617	\$ 2,694,341	\$ (12,724)
Debt Service	2,968	702,968	8,981	693,987
Capital Projects	72,032	72,032	77,528	(5,496)
Administration	216,500	216,500	154,807	61,693
Total Expenditures	<u>\$ 2,573,117</u>	<u>\$ 3,673,117</u>	<u>\$ 2,935,657</u>	<u>\$ 737,460</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(828,600)</u>	<u>(1,928,600)</u>	<u>(636,562)</u>	<u>1,292,038</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds				
Transfers From Other Funds	300,000	700,000	400,000	(300,000)
Borrowed Money		700,000		(700,000)
Total Other Financing Sources (Uses)	<u>300,000</u>	<u>1,400,000</u>	<u>400,000</u>	<u>(1,000,000)</u>
Net Changes in Fund Balance	(528,600)	(528,600)	(236,562)	292,038
Fund Balance - Beginning	<u>528,600</u>	<u>528,600</u>	<u>336,103</u>	<u>(192,497)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,541</u>	<u>\$ 99,541</u>

**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,254,800	\$ 1,254,800	\$ 1,319,442	\$ 64,642
Charges for Services	30,500	30,500	35,056	4,556
Miscellaneous	230,000	230,000	268,268	38,268
Interest	1,000	1,000	1,149	149
Total Revenues	<u>\$ 1,516,300</u>	<u>\$ 1,516,300</u>	<u>\$ 1,623,915</u>	<u>\$ 107,615</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ 1,203,800	\$ 1,203,800	\$ 1,193,407	\$ 10,393
Debt Service				
Principal	105,000	105,000	105,000	0
Interest	288,813	288,813	288,813	0
Administration	336,750	336,750	269,717	67,033
Total Expenditures	<u>\$ 1,934,363</u>	<u>\$ 1,934,363</u>	<u>\$ 1,856,937</u>	<u>\$ 77,426</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(418,063)</u>	<u>(418,063)</u>	<u>(233,022)</u>	<u>185,041</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	343,063	343,063	196,500	(146,563)
Total Other Financing Sources (Uses)	<u>343,063</u>	<u>343,063</u>	<u>196,500</u>	<u>(146,563)</u>
Net Changes in Fund Balance	(75,000)	(75,000)	(36,522)	38,478
Fund Balance - Beginning	<u>75,000</u>	<u>75,000</u>	<u>96,623</u>	<u>21,623</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 60,101</u>	<u>\$ 60,101</u>

**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 394,700	\$ 394,700	\$ 393,100	\$ (1,600)
Miscellaneous	8,200	8,200	2,839	(5,361)
Interest	470	470	695	225
Total Revenues	<u>403,370</u>	<u>403,370</u>	<u>396,634</u>	<u>(6,736)</u>
<b>EXPENDITURES</b>				
General Government	16,400	16,400	18,103	(1,703)
Protection to Persons and Property	327,600	327,600	343,103	(15,503)
General Health and Sanitation	213,435	213,435	306,445	(93,010)
Social Services	500	500		500
Recreation and Culture	70,000	70,000	20,351	49,649
Roads	60,000	60,000		60,000
Administration	148,165	148,165	115,688	32,477
Total Expenditures	<u>\$ 836,100</u>	<u>\$ 836,100</u>	<u>\$ 803,690</u>	<u>\$ 32,410</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(432,730)</u>	<u>(432,730)</u>	<u>(407,056)</u>	<u>25,674</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>337,575</u>	<u>337,575</u>	<u>347,575</u>	<u>10,000</u>
Total Other Financing Sources (Uses)	<u>\$ 337,575</u>	<u>\$ 337,575</u>	<u>\$ 347,575</u>	<u>\$ 10,000</u>
Net Changes in Fund Balances	(95,155)	(95,155)	(59,481)	35,674
Fund Balances - Beginning	<u>95,155</u>	<u>95,155</u>	<u>87,026</u>	<u>(8,129)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,545</u>	<u>\$ 27,545</u>

**CARTER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>ENHANCED 911 FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 255,000	\$ 255,000	\$ 273,031	\$ 18,031
Miscellaneous	1,000	1,000	3,950	2,950
Interest	500	500	1,883	1,383
Total Revenues	<u>\$ 256,500</u>	<u>\$ 256,500</u>	<u>\$ 278,864</u>	<u>\$ 22,364</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ 111,077	\$ 211,077	\$ 177,321	\$ 33,756
Debt Service				
Principal	166,217	166,217	166,217	0
Interest	1,906	1,906	1,906	0
Administration	77,300	77,300	37,405	39,895
Total Expenditures	<u>\$ 356,500</u>	<u>\$ 456,500</u>	<u>\$ 382,849</u>	<u>\$ 73,651</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(200,000)</u>	<u>(103,985)</u>	<u>96,015</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Changes in Fund Balances	(100,000)	(200,000)	(103,985)	96,015
Fund Balances - Beginning	<u>100,000</u>	<u>200,000</u>	<u>228,033</u>	<u>28,033</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 124,048</u>	<u>\$ 124,048</u>

**CARTER COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Justice Center Corporation Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of General Fund**

**Reconciliation of General Fund**

Revenues - Budgetary Basis	\$ 2,252,035
Plus: Notes Receivable	<u>20,000</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 2,272,035</u></u>
Expenditures - Budgetary Basis	\$ 1,635,256
Plus: Notes Receivable	<u>20,000</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 1,655,256</u></u>

**Note 3. Reconciliation of Road Fund**

**Reconciliation of Road Fund**

Total Expenditures - Budgetary Basis	\$ 2,935,657
Plus: Expenditures for Purchase of Equipment	<u>338,034</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 3,273,691</u></u>
Other Financing Sources (Uses) - Budgetary Basis	\$ 400,000
Plus: Proceeds from Financing Obligation	<u>338,034</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ 738,034</u></u>



**CARTER COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2006**



**CARTER COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

	<b>Governor's Surplus Spending Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Forestry Fund</b>	<b>Bond Defeasance Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 11,411	\$	\$ 12,962	\$ 66,133	\$ 90,506
Total Assets	<u>\$ 11,411</u>	<u>\$ 0</u>	<u>\$ 12,962</u>	<u>\$ 66,133</u>	<u>\$ 90,506</u>
<b>FUND BALANCES</b>					
Fund Balances:					
Unreserved:					
Special Revenue Funds	\$ 11,411	\$	\$ 12,962	\$ 66,133	\$ 90,506
Total Fund Balances	<u>\$ 11,411</u>	<u>\$ 0</u>	<u>\$ 12,962</u>	<u>\$ 66,133</u>	<u>\$ 90,506</u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**



**CARTER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2006**

	<b>Governor's Surplus Spending Fund</b>	<b>Community Development Block Grant Fund</b>	<b>Forestry Fund</b>	<b>Bond Defeasance Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$	\$	\$ 4,086	\$	\$ 4,086
Intergovernmental		6,250			6,250
Interest	85			771	856
Total Revenues	<u>\$ 85</u>	<u>\$ 6,250</u>	<u>\$ 4,086</u>	<u>\$ 771</u>	<u>\$ 11,192</u>
<b>EXPENDITURES</b>					
Protection to Persons and Property	\$	\$	\$ 3,456	\$	\$ 3,456
Capital Projects		6,250			6,250
Total Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,456</u>	<u>\$ 0</u>	<u>\$ 3,456</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>85</u>		<u>630</u>	<u>771</u>	<u>1,486</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers From Other Funds					
Total Other Financing Sources (Uses)					
Net Change in Fund Balances	85		630	771	1,486
Fund Balances - Beginning	11,326		12,332	65,362	89,020
Fund Balances - Ending	<u>\$ 11,411</u>	<u>\$ 0</u>	<u>\$ 12,962</u>	<u>\$ 66,133</u>	<u>\$ 90,506</u>

The accompanying notes are an integral part of the financial statements.

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**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2006**



## CARTER COUNTY COMMENTS AND RECOMMENDATIONS

**Fiscal Year Ended June 30, 2006**

### **Reference Number 2006-01**

#### The Fiscal Court Should Improve Purchase And Procurement Procedures

During testing we noted several items of nonfederal expenditures tested that either did not have the original supporting documentation or were not paid within 30 days. KRS 65.140(2) states, "All bills for goods or services shall be paid within thirty (30) workings days of receipt of a vendor's invoice." It was also noted that several purchase orders were not signed.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original invoices should be maintained, agreed to the corresponding purchase order, and canceled upon payment. Copies are not acceptable.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court maintain all original invoices and ensure that all purchase orders are signed. Also, invoices should be agreed to purchase orders and discrepancies should be investigated and resolved.

#### *County Judge/Executive Charles Wallace's Response:*

*At the present time, we hold one Fiscal Court meeting per month and if a bill is received after the Court meeting then the bill is held until the next Fiscal Court meeting in the following month. Our new policy is that we only pay the bills which have the "original" invoices. I have asked the Fiscal Court to hire a "Financial Officer" to eliminate any and all problems. There are times that the magistrate's pulls certain invoices and vendors will not be paid for 60-90 days.*

#### *County Treasurer Cindy Lowe's Response:*

*Because this finding does not pertain to me or my office, I do not have the authority to make the necessary changes. However, it is my understanding that proper controls have been put in place to make sure that all purchase orders are signed and original invoices maintained.*

### **Reference Number 2006-02**

#### The Fiscal Court Should Annually Review The Administrative And Ethics Code And Make Any Changes Or Revision They Deem Necessary

There are several instances in which County Officials and/or County employees simply are not complying with the Administrative and/or Ethics Code. KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review both the Administrative and Ethics Code and make necessary changes and modifications as appropriate.

**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reference Number 2006-02**

The Fiscal Court Should Annually Review The Administrative And Ethics Code And Make Any Changes Or Revision They Deem Necessary (Continued)

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*County Judge/Executive Charles Wallace's Response:*

*The Administrative and Ethics Code was reviewed and changed in the January 2007 Fiscal Court meeting.*

*County Treasurer Cindy Lowe's Response:*

*This matter has been brought to the attention of the Fiscal Court, and both the Administrative Code and Ethics Code are scheduled for review in the near future.*

Auditor's Reply: It should be noted that this was not corrected as of the end of audit fieldwork (November 22, 2006).

**Reference Number 2006-03**

The Fiscal Court Should Adopt A Written Investment Policy

---

The fiscal court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing a written investment policy.

*County Judge/Executive Charles Wallace's Response:*

*This has been written up by the Carter County Attorney and it is up for approval at the March 13, 2007 Fiscal Court meeting.*

*County Treasurer Cindy Lowe's Response:*

*The Fiscal Court has recently adopted a written investment policy.*

Auditor's Reply: It should be noted that this was not corrected as of the end of audit fieldwork (November 22, 2006).

**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reference Number 2006-04**

The Fiscal Court Should Maintain Proper Records For The Public Properties – Justice Center Corporation Fund

---

The County should maintain proper records for the Public Properties – Justice Center Corporation Fund (PPC). Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC, it is a blended component unit of the Fiscal Court. The PPC fund paid for the construction of the Justice Center, received payments from AOC, and made debt service payments for the 2002 First Mortgage Revenue Bond issue. The county should receive the bank statements for the PPC, maintain a receipts and disbursements ledger, and prepare a financial statement. We recommend the county maintain proper records for the PPC in the future.

*County Judge/Executive Charles Wallace's Response:*

*All work and documentation goes to Treasurer's office for filing.*

*County Treasurer Cindy Lowe's Response:*

*Currently, the County does not receive bank statements for the Justice Center Fund, and therefore cannot prepare a financial statement. I was not aware of any substantial expenditures being made during the 05-06 fiscal year.*

**Reference Number 2006-05**

The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code

---

The fiscal court did not follow bidding requirements outlined in the county's administrative code. We noted two (2) specific instances related to inconsistent bid procedures.

- On November 8, 2005, the fiscal court approved the cleanup on Friar Hollow Dump without designating a specific contractor. According to the contractor, it was his understanding he was to be paid by the hour and that fiscal court approved this work. The contractor had had numerous conversations with different fiscal court members regarding the clean up process and that he had done this type of work for the fiscal court before. The contractor submitted invoices totaling \$19,350 for Friar Hollow Dump. On January 19, 2006, fiscal court order minutes reflected, "The County Attorney advised the magistrates and County Judge that any claims presented on Fryer Hollow or any other project that exceed \$10,000.00 not be paid unless that entity has been awarded a bid." The contractor has not pursued the balance owed. The county did not bid this project and based on interviews with county officials and the contractor, the performance of the work is not in question.

**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reference Number 2006-05**

**The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code (Continued)**

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- During the course of our audit, the County Judge/Executive brought to our attention, one vendor who was awarded a bid for drill setting and cribbing. The fiscal court paid \$69,080 to this vendor on December 12, 2002. On February 1, 2006, Federal Emergency Management Agency (FEMA) inspectors disallowed \$32,762 of this amount. The report stated, "the rails/crib repair to be a 120 feet of single line of rails compared to the 200 feet long double row repair that was called for in the scope of work in the original PW [project worksheet]." We reviewed these invoices and other invoices submitted by this contractor to the fiscal court and could not determine whether the fiscal court paid the appropriate amount as outlined in the bid contract.

We recommend the fiscal court comply with its own administrative code by negotiating and awarding the best bid proposal. Competitive bidding ensures that the fiscal court procures materials and services at the best price available. We further recommend the fiscal court require detailed invoices to ensure the work awarded was the work completed and that the work should not be authorized based on a verbal request. We are referring this matter to the County Attorney to determine if any additional actions are warranted to properly comply with the county's procurement policy and bid contracts.

*County Judge/Executive Charles Wallace's Response:*

*Fryer Hollow cleanup was directed by the Fiscal Court to start cleanup immediately! Emergency was declared and the County was being told that if clean-up did not start, we would be fined by the EPA a large fine. The County Attorney, M. Fox was present at the meeting and did not offer us any legal advice that we would be in violation of bid requirements.*

*County Treasurer Cindy Lowe's Response:*

*None.*

**Reference Number 2006-06**

**The Fiscal Court Road Logs Do Not Agree**

---

We compared road logs provided to us from the fiscal court, the road department, and a magistrate. The logs were for the same time period and did not agree. The logs included numerous discrepancies, which would make a comparison or reconciliation virtually impossible.

Road logs provide a detailed listing of work completed by the road employees each day including the materials used. We could not determine if the fiscal court approved all the work actually performed or if the work submitted was actually completed.

We recommend that the road department submit signed, certified copies of all road logs to all members of the fiscal court and that a current road plan be documented by the fiscal court minutes and updated at each meeting.

**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reference Number 2006-06**

**The Fiscal Court Road Logs Do Not Agree (Continued)**

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*County Judge/Executive Charles Wallace's Response:*

*All road logs are turned in on a daily basis and presented to the magistrates every month at the Fiscal Court meetings. Since 2003, since I took office, all road logs are recorded in the County Clerk's office.*

*County Treasurer Cindy Lowe's Response:*

*None.*

Auditor's Reply: It should be noted that this was not corrected as of the end of audit fieldwork (November 22, 2006). Auditor examined the Fiscal Court minutes and current road plans were not published with the corresponding Fiscal Court meeting. This comment is repeated from the prior year audit due to the fact that corrective actions have not been followed as recommended (i.e. magistrates did not receive certified copies of road logs and current road plan was not published in the fiscal court minutes after each court meeting).

**Reference Number 2006-07**

**The Fiscal Court Lacks Adequate Segregation Of Duties**

---

The County has a lack of adequate segregation of duties. We recommend the following controls be implemented to achieve a proper segregation of duties:

- An independent person should list all receipts and verify them to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, deposit shortages, and overdraft charges. The person initialing the envelope or bank statement can document this.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. The person initialing the bank reconciliation can document this.
- An independent person should compare fiscal court order approvals to invoices and canceled checks.
- A person who is independent from receiving and billing should open all incoming mail and secure the unopened bids until the Fiscal Court Meeting.
- Allow an independent person over expenditures, such as the Treasurer, to review and verify expenditures.

*County Judge/Executive Charles Wallace's Response:*

*We are restricted because of staff size and budget shortages. I have asked the Fiscal Court to hire a "Financial Officer" to help eliminate any and all problems.*

*County Treasurer Cindy Lowe's Response:*

*I am always receptive to the implementation of more stringent internal controls. However, the size of the current staff and budget severely limit the ability to completely segregate duties.*

**CARTER COUNTY  
COMMENTS AND RECOMMENDATIONS  
FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**Reference Number 2006-08**

The Fiscal Court Did Not Maintain Appropriate Records For \$183,699 In Federal Emergency Management Agency Expenditures

---

The fiscal court did not maintain appropriate records of Federal Emergency Management Agency (FEMA) projects totaling \$183,699 for the fiscal year. The majority of the project files contained only project worksheets and did not include the required information recording that the work was completed, what work was completed, when and where the work was done, and why this work was done.

According to the FEMA Policy Handbook, a grant recipient is required to establish and maintain accurate records of events and expenditures related to disaster recovery work. FEMA also states that all of the documentation pertaining to a project should be filed with the corresponding project worksheet and be maintained by the applicant as the permanent record of the project. These records become the verification of the accuracy of project cost estimates during validation of small projects, reconciliation of costs for large projects, and audits.

We recommend the fiscal court begin the record keeping process before a disaster is declared and ensure that work performed both before and after a disaster declaration is well documented. Fiscal court's designated person should ensure the compilation and filing of records by establishing a file for each site where work has been or will be performed and maintain accurate disbursement and accounting records to document the work performed and the costs incurred.

*County Judge/Executive Charles Wallace's Response:*

*E-911 Director had all documentation and paper work was in place when given to the FEMA inspectors. We have been paid 100% from FEMA, if all documentation had not been right, we would not have been paid.*

*County Treasurer Cindy Lowe's Response:*

*No response – this finding does not pertain to my office.*

Auditor's Reply: This is a repeated comment from the prior year audit. During audit testing, a description of the work completed, work logs, and final documentation that the work was completed (i.e. pictures, approval forms, other documentation as required by FEMA) were not included with the project worksheets that were given to the auditors for the period under audit (7/1/05 – 6/30/06). Corrective actions have not been followed, therefore; this comment has been repeated.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:**

- 2005-01 Fiscal Court Should Review Procurement Policy, Ethics Code, And Contract Documents To Address Possible Conflicts Of Interest  
*This comment has been repeated in the current year; refer to 2006-01 and 2006-02.*
- 2005-02 The County Officers Or Elected Officials Including The Judge/Executive Should Adhere To And Follow The County's "Code of Ethics"  
*This comment has been repeated in the current year; refer to 2006-02.*
- 2005-03 Carter County Fiscal Court Did Not Have Proper Documentation For \$201,220 Of Expenditures  
*This comment has been repeated in the current year; refer to 2006-01.*



**CARTER COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**FISCAL YEAR ENDED JUNE 30, 2006**  
**(Continued)**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued):

- 2005-04 Carter County Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code  
*This comment has been repeated in the current year; refer to 2006-05.*
- 2005-05 Carter County Fiscal Court Road Logs Do Not Agree  
*This comment has been repeated in the current year; refer to 2006-06.*
- 2005-06 Lacks Adequate Segregation Of Duties  
*This comment has been repeated in the current year; refer to 2006-07.*
- 2005-07 Carter County Fiscal Court Has Questioned Costs Of \$3,737 In Federal Emergency Management Agency Funds Due To The Same Invoice Being Used For Multiple Roads  
*This has been corrected.*
- 2005-08 Carter County Fiscal Court's Schedule Of Expenditures Of Federal Awards Contained Over \$161,356 Of Reporting Errors  
*This has been corrected.*
- 2005-09 Carter County Fiscal Court Did Not Maintain Appropriate Records For \$286,485 In Federal Emergency Management Agency Expenditures  
*This comment has been repeated in the current year; refer to 2006-08.*
- 2005-10 Carter County Fiscal Court Should Approve All Payments Of Administrative Cost Related To Federal Emergency Management Agency Grants  
*There were no FEMA disasters closed out during the fiscal year under audit. Therefore, no payments were made to the FEMA agent. This comment is not relative to the current fiscal year.*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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The Honorable Charles Wallace, Carter County Judge/Executive  
Members of the Carter County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carter County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Carter County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations.

- 2006-01 The Fiscal Court Should Improve Purchase And Procurement Procedures
- 2006-04 The Fiscal Court Should Maintain Proper Records For The Public Properties – Justice Center Corporation Fund
- 2006-06 The Fiscal Court Road Logs Do Not Agree
- 2006-07 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2006-08 The Fiscal Court Did Not Maintain Appropriate Records For \$183,699 In Federal Emergency Management Agency Expenditures

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-01, 2006-07, and 2006-08 to be material weaknesses.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carter County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2006-02 The Fiscal Court Should Annually Review The Administrative And Ethics Code And Make Any Changes Or Revision They Deem Necessary
- 2006-03 The Fiscal Court Should Adopt A Written Investment Policy
- 2006-05 The Fiscal Court Did Not Follow Bidding Requirements Set Forth In The County's Administrative Code

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC  
Certified Public Accountants

November 22, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**CARTER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**

**ATTACHMENT A**




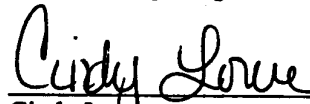


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Charles Wallace  
Carter County Judge/Executive

  
\_\_\_\_\_  
Cindy Lowe  
Carter County Treasurer

